

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0677-04  
Bill No.: HB 129  
Subject: Retirement - State; State Employees; Holiday  
Type: Original  
Date: March 13, 2013

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Bill Summary: This proposal changes the observed state holidays and establishes the 2013 State Employee Retirement Incentive Program which allows certain employees to receive a years of service benefit.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	Up to \$13,386,982	Up to \$60,778,734	Up to \$60,778,734
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>Up to \$13,386,982</b>	<b>Up to \$60,778,734</b>	<b>Up to \$60,778,734</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Other State Funds	Up to \$4,016,094	Up to \$18,233,620	Up to \$18,233,620
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>Up to \$4,016,094</b>	<b>Up to \$18,233,620</b>	<b>Up to \$18,233,620</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Federal Funds	Up to \$4,908,560	Up to \$22,285,536	Up to \$22,285,536
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>Up to \$4,908,560</b>	<b>Up to \$22,285,536</b>	<b>Up to \$22,285,536</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal should not result in additional costs or savings to their division.

While the legislation does provide an exception for "critical" positions, a general 30% cap on replacing personal service funds results in budgeting decisions based on who decides to retire and when, instead of what is in the best policy and management interests of the state.

Additionally, the largest number of state positions tend to be employees in 24-hour institutions and public safety, such as those in prisons, mental health, and youth services facilities; state-run schools; child protective service workers; and public safety officers. The Office of Administration would likely categorize these positions as "critical" and thus eligible to be refilled at 100% of current funding; consequently, possible savings to the state will likely be greatly diminished.

Many positions that might not be classified as "critical" may still be necessary for the practical functioning of state government. The thirty percent salary replacement level will not allow the refilling of many of these positions and could result in major under staffing in important areas.

BAP defers to Missouri State Employees Retirement System for an estimate on the number of eligible retirees.

BAP estimates savings for each state holiday eliminated at approximately \$1,822,692, including \$1,136,044 general revenue. The calculations are based on holiday compensatory time accrual codes entered into the state's payroll system for the 2/12/2010 holiday and the corresponding salaries and fringe benefits, and the Division of Facilities Management, Design and Construction's estimate of savings in daily costs of operating state facilities.

For Fiscal Note purposes, **Oversight** is calculating the cost savings of each holiday by BAP's breakdown of personnel service expenditures. (i.e. 60% General Revenue, 18% other state funds, and 22% federal funds).

Officials from the **Missouri State Employees Retirement System (MOSERS)** state that the proposed legislation would, if enacted, eliminate three state holidays (February 12th - Lincoln Day; May 8th - Truman Day; and the second Monday of October - Columbus Day) and codify the fourth Friday in November (the day after Thanksgiving) as a state holiday. The proposal also would create the 2013 State Employee Retirement Incentive Program.

ASSUMPTION (continued)

As proposed, the legislation would allow any general state employee who is eligible to receive a normal annuity who terminates employment on or after April 1, 2014, after reaching normal eligibility, and whose annuity commences on or after May 1, 2014, but no later than July 1, 2014, to be eligible to receive a years of service incentive benefit. The "years of service incentive benefit" is defined as a benefit for employees who have at least ten years of creditable service in an amount equal to \$500 for each year of creditable service up to a maximum of 20 years of creditable service. The program would not apply to terminated-vested members, members eligible for early retirement, legislators, statewide elected officials and judges, and in no event would the incentive be provided to any individual retiring outside the stipulated window period.

Under this proposal, the state, through the Office of Administration (COA), would be required to pay the years of service incentive benefit to the member or the member's beneficiary in two equal installments beginning in August 2014, and ending in August 2015. COA would be able to adopt rules to administer the program including rules on an emergency basis to implement the program. In addition, MOSERS would be required to release records, for implementation of the program, to COA for purposes of administering and monitoring the program.

As proposed, the state would be able to hire employees to replace those retiring under the incentive program, except that departments would not be able to fill positions vacated using more than 30% of the personal service funds of the positions vacated. Exceptions to the 30% restriction could be made for positions that are entirely federally funded and positions deemed critical. In addition, any employee retiring under the incentive program would be prohibited from any full-time employment with any department. Any part-time employment with a department by an employee retiring under the incentive would not be eligible for any additional credited service as defined in Chapter 104.

The governing boards of Truman State University, Lincoln University, and the educational institutions described in Section 174.020, RSMo, the Highway Commission of the Missouri Department of Transportation and the Missouri State Highway Patrol, and the Conservation Commission of the Department of Conservation would be able to elect to provide the 2013 State Employee Retirement Incentive to their employees.

MOSERS would be required to issue a report, regarding the number of state employees eligible to retire and the number of actual retirements, to the Commissioner of Administration by November 30, 2014. The Commissioner of Administration would be required to issue a report regarding the information provided by MOSERS and the years of service incentive benefit payments, including an analysis of the cost and savings as a result of such retirements, the amount of payroll reduced, and the number of positions that are cut a result of such retirements,

ASSUMPTION (continued)

to the Governor and General Assembly by December 31, 2014. The Commissioner would also be required to submit an updated report concerning the program on or before December 31, 2015.

**How Retirement Incentives Work**

Retirement incentives are designed to achieve a voluntary reduction in the workforce during a specific window with the desired effect being a permanent reduction in payroll. Any costs incurred should be offset by a combination of 1) a reduction in the number of active employees; 2) lower pay levels for replacement employees; and/or 3) a reduction in other fringe benefits for replacement employees. The success of any retirement incentive plan is largely dependent upon the discipline that will result in a lasting reduction in the workforce. Without that discipline, there will be no long-term reduction in payroll costs.

**Eligible Employees**

MOSERS has no way of estimating the number of employees who might retire during the window provided by this proposal; however, the table that follows illustrates the number of general state employees who would be eligible to retire and receive service incentive benefit equal to \$500 per year of service up to a maximum of 20 years or \$10,000.

**Active Members Eligible for Retirement**

Service*	Number Eligible	Estimated Cost
10-15 Years	1,082	\$6,960,000
16-20 Years	1,053	\$9,406,500
21+ Years	4,695	\$46,950,000
Total:	6,830	\$63,316,500

\*Service reflects completed full years.

Over the past three years, MOSERS retired, on average, 146 active employees per month. If the 2013 incentive is enacted, it is likely that the volume of monthly retirements that would have normally occurred prior to the window period would decline significantly – that is, eligible active employees who might otherwise retire during 2013 could postpone retirement in order to take advantage of the cash incentive. The unintended consequence is that employees who would have normally retired during the time period prior to the window would defer their retirement to receive the cash incentive.

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ASSUMPTION (continued)

The table that follows illustrates, by department, the number of active members eligible for retirement as of February 1, 2013 as compared to number of active members who would be eligible for the retirement incentive as of July 1, 2014, under this proposal.

**ACTIVE MEMBERS ELIGIBLE FOR RETIREMENT  
 BY DEPARTMENT**

(Regular State Employees Only)

DEPT NO.	DEPARTMENT NAME	Active Members 12-31-2012	Eligible for Normal 2/1/2013 w/at least 10 yrs ser	Eligible for Normal 7/1/2014 w/at least 10 yrs ser	Percent of Workforce
23	Corrections	10,697	907	1,357	12.7%
21	Social Services	7,067	767	1,069	15.1%
17	Mental Health	6,999	657	942	13.5%
2	Judiciary	2,809	399	529	18.8%
19	Public Safety	2,414	158	229	9.5%
9	Office of Administration	1,940	306	425	21.9%
13	Elementary & Secondary Ed.	1,708	257	339	19.8%
24	Health	1,697	227	311	18.3%
18	Natural Resources	1,482	239	309	20.9%
11	Conservation	1,414	178	252	17.8%
20	Revenue	1,314	174	248	18.9%
16	Labor & Ind. Relations	850	111	150	17.6%
12	Economic Development	789	142	194	24.6%
22	Public Defenders	580	48	66	11.4%
26	Insurance	518	59	76	14.7%
1	Legislature	389	77	100	25.7%
8	Attorney General	346	21	31	9.0%
10	Agriculture	301	46	61	20.3%
5	Secretary of State	233	30	44	18.9%
48	Linn State Technical	169	10	18	10.7%
6	State Auditor	108	11	16	14.8%
50	MO SERS	75	12	17	22.7%
49	MCHCP	59	3	5	8.5%
14	Higher Education	59	4	7	11.9%
7	State Treasurer	45	4	7	15.6%
15	Highway & Transportation	30	5	7	23.3%
3	Governor's Office	29	2	4	13.8%
52	Mo Rehab	27	13	17	63.0%
4	Lt. Governor's Office	3	-	-	0.0%
TOTALS		44,151	4,867	6,830	

Percent of Full Time Workforce

11.0%

15.5%

### ASSUMPTION (continued)

**Oversight** assumes that 42% of eligible employees would avail themselves of the incentive (based on the percentage of employees who used the retirement incentive in TAFP CCS for HC for HCS for SS#2 for SCS for SB's 248, 100, 118, 247, 341 & 420 from 2003).

42% of 6,830 eligible retirees = 2,869

2,869 x \$1,000 per year = \$2,869,000 x 10 years = \$28,690,000 ÷ 2 payments = \$14,345,000 annually  
There will be two equal annual installments paid August 2014 and August 2015.

**Oversight** also assumes there will be a potential payroll savings if 2,869 employees retire and only 30% of those personnel services funds would be used to rehire. However, as expressed by BAP, some percentage of these will be considered "critical" and therefore, the state will not realize a non-replacement savings. Therefore, Oversight will reflect the savings from replacing only 30% of the retirees, as "Up to" the numbers calculated below.

### Calculation of Payroll Savings

70% of 2,869 = 2,008

Average Salary \$37,000

2,008 x \$37,000 = \$74,296,000

Fringe Benefit Calculation 50.745% x \$74,296,000 = \$37,701,505

Total Payroll Savings: \$111,997,505

### Fund Split Percentages for Payroll Savings

60% of \$111,997,505 = \$67,198,503 General Revenue Fund

18% of \$111,997,505 = \$20,159,551 Other State Funds

22% of \$111,997,505 = \$24,639,451 Federal Funds

Officials from the **Missouri Consolidated Health Care Plan** assume the current proposal would not fiscally impact their agency in regards to proposed changes to state holidays. In addition, they assume that the fiscal impact relating to the number of employees that would be eligible for the incentive program in the proposal would be included in the estimates provided by Missouri State Employees Retirement System.

Officials from the **MoDOT & Patrol Employees' Retirement System** do not plan to participate in this incentive, and because of that it is not prudent use of system funds to have an actuary value this proposal. However, for the record, the following table summarizes the number of members who would have been eligible to participate.

ASSUMPTION (continued)

**MPERS Members Eligible to Participate  
in Proposed Incentive Program**

<b>Group</b>	<b>Number</b>	<b>Covered Payroll</b>	<b>Average Age</b>	<b>Average Service</b>
MoDOT Employees	715	\$34,895,518	57.77	26.18
Civilian Patrol Employees	188	7,746,444	59.78	25.01
Uniformed Patrol	132	10,140,642	55.38	30.56
MPERS	1	59,613	56.99	36.25
<b>Total</b>	<b>1,040</b>	<b>\$52,842,217</b>	<b>57.83</b>	<b>26.53</b>

Officials from the **Joint Committee on Public Retirement** state that this legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

Officials from the **Missouri Department of Conservation** assume the current proposal would not fiscally impact their agency.

Officials from the **Missouri Highway Patrol** assume the Department of Transportation and the Retirement System will be responding on the behalf of the Highway Patrol.

Additionally, the patrol assumes an unknown impact in regard to Section 104.406.2. The patrol does not know how many employees would choose to participate, but for those who do, only 30% of the personal service funding would be available for a replacement. The patrol assumes the other 70% would be cut from their budget which would be an obvious savings to the state. However, it could have a detrimental impact on their efforts to provide law enforcement services to the public as less staff would be available to perform these duties.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>GENERAL REVENUE</b>			
<u>Savings</u> - Office of Administration Net reduction in personnel cost (2 mo FY14)	Up to \$11,199,751	Up to \$67,198,503	Up to \$67,198,503
<u>Savings</u> - Office of Administration Elimination of state holidays	\$2,187,231	\$2,187,231	\$2,187,231
<u>Costs</u> - Retirement Incentive	\$0	(\$8,607,000)	(\$8,607,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<u>Up to</u> <u>\$13,386,982</u>	<u>Up to</u> <u>\$60,778,734</u>	<u>Up to</u> <u>\$60,778,734</u>
<b>ALL OTHER FUNDS</b>			
<u>Savings</u> - Office of Administration Net reduction in personnel cost (2 mo FY14)	Up to \$3,359,925	Up to \$20,159,551	Up to \$20,159,551
<u>Savings</u> - Office of Administration Elimination of state holidays	\$656,169	\$656,169	\$656,169
<u>Costs</u> - Retirement Incentive	\$0	(\$2,582,100)	(\$2,582,100)
<b>ESTIMATED NET EFFECT ON ALL OTHER FUNDS</b>	<u>Up to</u> <u>\$4,016,094</u>	<u>Up to</u> <u>\$18,233,620</u>	<u>Up to</u> <u>\$18,233,620</u>
<u>FISCAL IMPACT - Federal Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>FEDERAL FUNDS</b>			
<u>Savings</u> - Office of Administration Net reduction in personnel cost (2 mo FY14)	Up to \$4,106,575	Up to \$24,639,451	Up to \$24,639,451
<u>Savings</u> - Office of Administration Elimination of state holidays	\$801,985	\$801,985	\$801,985
<u>Costs</u> - Retirement Incentive	\$0	(\$3,155,900)	(\$3,155,900)
<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<u>Up to</u> <u>\$4,908,560</u>	<u>Up to</u> <u>\$22,285,536</u>	<u>Up to</u> <u>\$22,285,536</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.


FISCAL DESCRIPTION

The proposal changes the observed state holidays and allows for a retirement incentive program by state agencies.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Retirement  
Missouri State Employees Retirement System  
Missouri Highway Patrol  
Missouri Department of Conservation  
Missouri Consolidated Health Care Plan  
Office of Administration - Budget and Planning  
MoDOT and Patrol Employees Retirement System



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